**Session 6 - International Economics/Development Economics**

In terms of the assessment model, these two sections of the syllabus shall be mainly assessed through Paper 2, the Data Response Paper.

* The paper will be presented in two sections, Section A and Section B.
* Section A will have two data response questions, which have International Economics as their main focus.
* Section B will have two data response questions which have Development Economics as their main focus.
* Students will have to do one question from Section A and one question from Section B.

It is essential to note that the economic models used in both International Economics and Development Economics have been treated in either the microeconomics or macroeconomics sections. Therefore, the questions set on the Data Response paper will necessarily involve economic theory from the full range of the syllabus.

**Microeconomic concepts used in International Economics and Development Economics:**

* Gains from trade = gains from competition
* Resource allocation
* Economies of scale as a gain from trade (should only be expected at HL)
* Opportunity cost and PPC model at the heart of the comparative advantage model (HL)
* Trade diagrams (tariff, quota, subsidy) – supply and demand, perfectly elastic supply, consumer surplus, producer surplus
* Protectionism as a means of dealing with market failure (maintaining environmental standards)
* Supply and demand analysis to show changes in exchange rates
* Illustrating exchange rate movements with linear demand and supply functions (HL)
* Elasticity of demand for exports and imports and the Marshall-Lerner condition
* Supply and demand analysis (tariff diagram) to illustrate trade creation and trade diversion (HL)
* Economies of scale as an advantage of economic integration
* Supply and demand analysis in the terms of trade theory
* Importance of education as a means of achieving both growth and development – link to positive externality of consumption as well as the PPC model
* Investment in appropriate technology as a positive externality of production
* Price volatility of primary products -supply and demand analysis/elasticities of demand and supply
* Costs and benefits of FDI using externalities models
* Role of different forms of aid in increasing provision of merit goods (education, health care and infrastructure)
* Opportunity cost of debt servicing

**Macroeconomic concepts used in International Economics and Development Economics:**

* Structural/sectoral change in an economy ⇨Changing comparative advantage
* Argument in favour of protectionism as a means of reducing structural unemployment
* Argument in favour of protectionism as a means of reducing imports and increasing domestic production, thereby increasing aggregate demand
* Argument against protectionism that it can increase costs of production and lead to cost-push inflation as well as reduced competitiveness of exports
* Consequences of rising and falling exchange rates in terms of their effect on economic growth, inflation and unemployment
* The current account as a component of aggregate demand (X – M); Current account deficit ⇨ Fall in AD, Current account surplus ⇨ Increase in AD
* Foreign direct investment as a source of investment
* Expenditure reducing policies (↓AD) as a means of correcting a current account deficit (HL)
* Supply side policies as a means of improving the current account
* Sacrifice of domestic policy goals a disadvantage of a high level of economic integration
* Effect of inflation on the terms of trade
* Income inequality within developing countries – Lorenz curves, gini coefficients
* Global inequality linked to factor endowments?
* Sources of economic growth – investment in human and physical capital/institutional improvements/supply side policies
* Poverty trap linked to low levels of investment
* Measuring economic development – GDP, GNI
* Micro-credit as a means of accessing funds for investment
* Consequences of import substitution and export promotion on aggregate demand and growth
* Role of privatisation and deregulation as market oriented supply side polices to achieve growth and/or development
* Role of government intervention in achieving macroeconomic stability in developing countries